

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 90-760-C - ORDER NO. 91-501 ✓  
JUNE 10, 1991

IN RE: Request of St. Stephen Telephone    ) ORDER INCREASING  
Company, Inc. for an Increase in        ) AUTHORIZED  
its Authorized Rate of Return.        ) RATE OF RETURN

On February 27, 1991, St. Stephen Telephone Company, Inc. (the Company) filed a Petition with the Public Service Commission of South Carolina (the Commission) requesting an increase in its authorized rate of return on rate base. The Company did not seek any change in its basic rates and charges. The petition was filed pursuant to S.C. Code Ann. §58-9-10 et seq. (1976), S.C. Reg. 103-830, et seq. (1976), and in response to a Commission Staff audit report which indicated that the Company's rate of return on rate base, after accounting and pro forma adjustments, was 12.53%, based on the twelve months ending December 31, 1989.

By letter dated March 15, 1991, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing in newspapers of general circulation in the affected areas, once a week for two consecutive weeks. The purpose of the Notice of Filing was to inform interested parties of the nature of the petition and the manner and time in which to file the appropriate pleadings for participation in the proceeding. Thereafter, the

Company provided the Commission with proof of publication of the Notice of Filing. No Petitions to Intervene or Protests were received.

On May 29, 1991, at 2:30 p.m., a public hearing was commenced in the Commission's Hearing Room. The Honorable Marjorie Amos-Frazier presided. Robert T. Bockman, Esquire, represented the Company; and F. David Butler, Staff Counsel, represented the Commission Staff.

The Company presented the testimony of James C. Meade, Manager of External Affairs for Telephone and Data Systems' Southeast Region. Telephone and Data Systems is the parent company of St. Stephen Telephone Company. Meade explained the major business risks faced by small telephone companies such as St. Stephen, and explained his opinion that the Company's presently authorized rate of return should be modified, based on the Commission Staff's 1989 audit. The Commission Staff presented the testimony of Steve W. Gunter, Utilities Accountant of the Commission's Administration Division, to summarize Staff's findings and recommendations.

The Commission found that the local rates requested in the Company's last rate adjustment proceeding in Order No. 85-1091, issued in Docket No. 85-183-C, dated December 20, 1985, were fair and reasonable and would result in a rate of return on rate base of 10.21%. Hearing Exhibit 2. Accordingly, the Company's present authorized rate of return on rate base is 10.21%.

Witness Meade testified that the Company is requesting the Commission to authorize a return on rate base in the range of 12.5% to 13.0%. In his opinion, a range of 12.5% to 13.0% is a reasonable rate of return on investment for the Company, considering the business risks that the Company faces. Examples of those risks are:

1. An increasingly competitive environment with limitations on the regulated company's ability to compete.
2. Major technological advances which could render present facilities obsolete prior to full capital recovery.
3. Uncertainties of new telephone rate designs which do not have the predictability of more traditional rate designs, and which are more likely to vary based on business conditions, economic conditions, seasonality or other unforeseen changes.
4. An obligation to serve which limits financing flexibility and may commit resources to meet a demand which could subsequently be eliminated by competitors.

Meade emphasized that the Company was not seeking any changes in its rates in this proceeding, but was requesting that the Commission adjust the authorized rate of return on rate base from the amount authorized in 1985 to the range of 12.5% to 13.0%. Meade explained that, in his opinion, it was inappropriate to compare the Company to the larger telephone holding companies in that the large companies could even out business risks through their large number and variety of customers and the greater geographic dispersion of their service territory.

After a thorough review of the record and the evidence presented, the Commission makes the following findings of fact and conclusions of law.

#### FINDINGS OF FACT

1. St. Stephen Telephone Company, Inc. is a South Carolina corporation owning and operating equipment and facilities for the provision of telecommunications services in this state.

2. The Company's present authorized rate of return on rate base of 10.21% is insufficient to provide the Company an opportunity to earn a fair return on its rate base.

3. The Commission Staff conducted an audit showing that the Company's rate of return on rate base was greater than that previously authorized by the Commission.

4. In response to Staff's audit report, the Company stated that it would seek an increase in its authorized rate of return on rate base. The Company filed a petition on February 27, 1991, seeking an increase in its authorized rate of return on rate base.

5. The Company alleges a fair and reasonable rate of return on rate base is in the range of 12.5% to 13.0%.

6. The Company is not seeking any adjustments in its rates and charges.

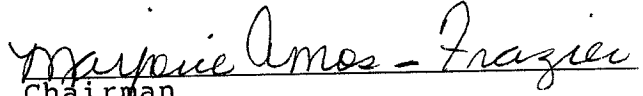
7. Accounting and pro forma adjustments were made to the Company's books in order to illustrate the Company's present earnings to the Commission.

CONCLUSIONS OF LAW

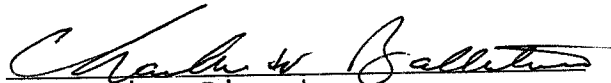
1. The Company is a utility within the meaning of S.C. Code Ann. §58-9-10(6) (1976). Consequently, the Company's intrastate operations are subject to the jurisdiction of this Commission.
  2. Because accounting and pro forma adjustments were made in order to illustrate the Company's present earnings, the Commission need not determine the appropriateness of the adjustments.
  3. Because the Company is a small, independent utility whose stock is wholly owned and is neither publicly nor regularly traded, this Commission will not make a determination as to the appropriate capital structure of the Company. Further, the Commission will not authorize a rate of return on equity.
  4. Based upon the evidence, a fair and reasonable return on rate base for the Company is in the range of 12.5% to 13.0%.
  5. This newly authorized rate of return on rate base will not affect the Company's present rates and charges.
  6. A rate of return on rate base ranging from 12.5% to 13.0% will allow the Company to meet its statutory requirements to provide adequate, efficient, and reasonable service, will provide a return to the Company's owners commensurate with returns on investments in other enterprises with corresponding risks, and will assure confidence in the financial integrity of the Company.
- IT IS THEREFORE ORDERED:
1. St. Stephen Telephone Company is hereby granted the opportunity to earn an authorized rate of return in the range of 12.5% to 13.0% on its South Carolina combined rate base.

2. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)